



CIRCULAR
August 8, 2003

REQUEST FOR COMMENTS

AMENDMENTS TO ARTICLE 6642 OF THE RULES SPONSORED OPTIONS: ELIGIBILITY CRITERIA OF A SPONSOR

Summary

The Executive Committee of Bourse de Montréal Inc. (the “Bourse”) has approved amendments to article 6642 of the Rules of the Bourse regarding the eligibility criteria of a sponsor under the “Sponsored Options” program of the Bourse. The suggested amendments will permit Canadian Approved Participants of the Bourse to qualify as sponsors.

Process for Changes to the Rules

The Bourse is recognized as a self-regulatory organization (“SRO”) by the Commission des valeurs mobilières du Québec (the “Commission”). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its capacity as an exchange, the Bourse takes on responsibilities as a market regulator.

The Board of Directors of the Bourse has the power to approve the adoption or amendment of various Rules and Policies of the Bourse. The Board of Directors has delegated its powers of approval of Rules and Policies to the Executive Committee. The changes are submitted to the Commission for approval.

Circulaire no : 117-2003

Tour de la Bourse
C. P. 61, 800, square Victoria, Montréal (Québec) H4Z 1A9
Téléphone : (514) 871-2424
Sans frais au Canada et aux États-Unis : 1 800 361-5353
Site Internet : www.m-x.ca

Tour de la Bourse
P.O. Box 61, 800 Victoria Square, Montréal, Quebec H4Z 1A9
Telephone: (514) 871-2424
Toll-free within Canada and the U.S.A.: 1 800 361-5353
Website: www.m-x.ca

Comments on the proposed amendments to article 6642 must be submitted within 30 days following the date of publication of this notice in the bulletin of the Commission. Please submit your comments to:

*Ms. Joëlle Saint-Arnault
Vice-President, Legal Affairs
and Secretary
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal (Quebec) H4Z 1A9
E-mail : legal@m-x.ca*

A copy of these comments shall also be forwarded to the Commission to :

*Ms. Denise Brosseau
Secretary
Commission des valeurs mobilières du Québec
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail : consultation-en-cours@cvmq.com*

Appendices

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined following approval by the Commission des valeurs mobilières du Québec.



AMENDMENTS ARTICLE 6642 SPONSORED OPTIONS-ELIGIBILITY CRITERIA OF A SPONSOR

I OVERVIEW

A -- Proposed Rule

Amendments to article 6642 of the Rules of the Bourse to permit an approved participant to qualify as a sponsor in the Sponsored Options program if the risk adjusted capital it has is equivalent to the one required from an «Acceptable Canadian Institution», as defined in Policy C-3 of the Bourse.

B -- The Issue

Article 6642 of the Rules of the Bourse that sets out the eligibility criteria for an entity to qualify as a sponsor under the sponsored options program presently requires that the sponsor must meet the definition of “acceptable institution” as defined in Policy C-3 of the Bourse. This criteria has the effect that approved participants are excluded from the status of Sponsor

C -- Objectives

The suggested amendments to article 6642 of the rules of the Bourse have for objective to expand the access of Sponsor status to the Bourse’s Canadian approved participants who dispose of a risk adjusted capital considered satisfactory.

II DETAILED ANALYSIS

A -- Actual Rule and Proposed Rule

Originally, the Bourse’s Sponsored Options Program excluded approved participants from the status of Sponsor due to the relatively low minimum capital requirements imposed on approved participants compared to those required from an «Acceptable Institution». Although, if an approved participant meets the same requirements in terms of capital than an “Acceptable Institution” there should be no reason that the approved participant cannot become a Sponsor. The amendments to article 6642 aim to fill this gap and thus permit the Bourse’s approved participants to be recognized as Sponsors when the risk adjusted capital of the approved participant is equal to or greater than \$100 million Canadian dollars, which corresponds to the minimum requirement for an institution to qualify as «Acceptable Canadian Institution».

B -- Conclusion

The purpose of the suggested amendments to article 6642 is to permit the Bourse’s Canadian approved participants to become Sponsors.

6642 Eligibility criteria of a sponsor
(28.01.02)

In order for an ~~institution~~-entity to act as a sponsor, it must fulfil the following conditions:

- 1) meet the definition of "acceptable institution" as defined in Policy C-3 of the Bourse;
- 2) be a client of an approved participant. The approved participant must be a subsidiary of the sponsor and be a Canadian Derivatives Clearing Corporation member;
- 3) the approved participant defined in 2) must act as the sole market maker on the options sponsored by the ~~institution~~-entity either on its own initiative or by carrying out the instructions given by the sponsor or by a subsidiary of the sponsor;
- 4) the ~~institution~~-entity cannot sponsor options having as underlying interest its own shares, those of one of its subsidiaries or those of any company on which the institution has, directly or indirectly, an effective control.
- 5) the sponsor must sign a sponsor agreement in the form prescribed by the Bourse;
- 6) when assessing the eligibility of a sponsor, the Bourse evaluates the previous experience of the sponsor with similar financial instruments.

The Bourse may also permit an approved participant to act as sponsor if it satisfies the following conditions:

- 1) The approved participant is not a foreign approved participant of the Bourse;
- 2) The approved participant is a member of the Canadian Derivatives Clearing Corporation;
- 3) The risk adjusted capital of the approved participant is equal to or greater than \$100 million Canadian dollars as is shown by the most recent audited "Joint Regulatory Financial Questionnaire and Report" of the approved participant and is maintained at all times at a minimum amount of \$100 million Canadian dollars;
- 4) The approved participant must submit monthly to the Bourse, and this without regard to its audit jurisdiction, a copy of the monthly financial report requested in virtue of the Rules of the Bourse;
- 5) The approved participant cannot sponsor options having as underlying interest its own shares, those of its parent or those of one of its subsidiaries or any such other company which is affiliated to the approved participant or on which the approved participant has, directly or indirectly, an effective control;
- 6) The approved participant must act as the sole market maker on the options it sponsors; and
- 7) The approved participant must sign a sponsor agreement in the form prescribed by the Bourse.

If the risk adjusted capital of the approved participant falls below the amount of \$100 million Canadian dollars as mentioned above or if the approved participant triggers one of the thresholds of the Early Warning System, as defined in the Rules and Policy C-3 of the Bourse, the approved participant must notify the Bourse immediately and no new sponsored option class or series can be sponsored by the

approved participant until it has re-established its risk adjusted capital to an amount equal to or greater than \$100 million Canadian dollars or, if it may be the case, that it does not trigger any additional thresholds of the Early Warning System.